



# Research Area

## Macro Research

March 2019

Supervisor:  
Arturo Schembri  
Head of Research Area  
+39 3293826060

Mirko Paolo Battaini Head of Macro Research +39 3929338368	Alberto Parigi Macro Research Analyst + 39 3317770102
Pier Luigi Amato Macro Research Analyst +39 3398120996	Jeh Patel Macro Research Analyst +39 3337853553
Stefano Berta Macro Research Analyst +39 3420221419	Alessandro Pisa Macro Research Analyst +39 3396219775
Bogdan Glicic Macro Research Analyst +381 62 427097	Jacopo Signorelli Macro Research Analyst +39 3428532499
Roberto Invernizzi Macro Research Analyst +39 3341865960	

# The economic effects of trade wars

## Summary

<b>I – Current trends in international trade .....</b>	<b>2</b>
Current Account Balances .....	3
Some theoretical considerations on trade policy .....	4
<b>II – The effects of the US’ trade wars .....</b>	<b>9</b>
The US – China trade war .....	9
A trading idea .....	11
A US – EU trade war? .....	12
<b>III – Sources .....</b>	<b>18</b>



## I – Current trends in international trade

The issue of international trade has been at the center of public debate over the past few years. Politicians, managers, economists, and diplomats have all taken strong and sometimes contrasting views on the benefits of trade. To understand the merits of each side, it is important to first understand the general state of international trade today.

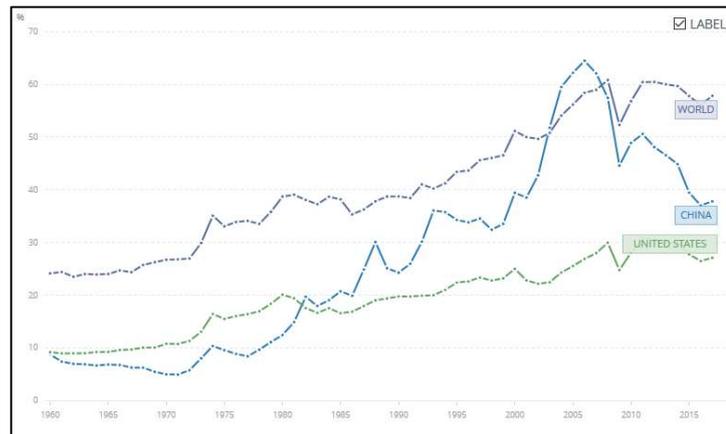


Figure 1. Trade-to-GDP<sup>1</sup> (%) ratio over time for China, the U.S. and the World. Source: World Bank national accounts data, and OECD National Accounts data files.

Figure 1 shows us how world trade has changed over time. Since the latter half of the 20<sup>th</sup> century, world trade has been growing at a significant rate. Moving from just below 25% in 1960 to 58% in 2017, Trade-to-GDP ratio development shows just how reliant the modern economy is on international trade. In part this increase can also be attributed to increased trade liberalization through the reduction of tariffs, the creation of international trade bodies such as the WTO (1995), the creation of trade blocs such as NAFTA (1994) or custom unions such as in Europe (1968).

However, after 2015 trade as a percentage of GDP begins to go down. Is this a temporary trend or the end of globalization as we know it? We will try to answer this question in what follows.

In this context, we look at the trends of USA and China. China's trade as a percentage of its GDP grew strongly after markets were liberalized. Although it overtook USA in the early '80s, it was only after joining the WTO in 2001 that trade began to dominate China's economy. At its peak, its Trade-to-GDP ratio was 64%. In recent years, this number has fallen to almost pre-2001 levels. In part this is because China's GDP has begun to grow not just because of exports but also because of increased consumption and investment.

Yet, this statistic is surprising. It tells us the China may not be as big of a 'threat' as some opponents of trade claim.

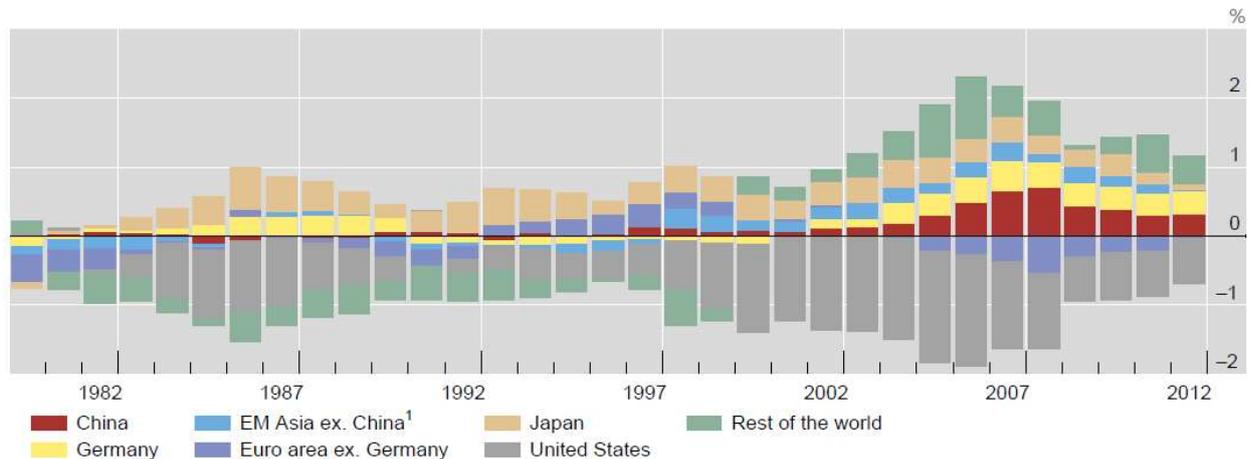
---

<sup>1</sup> Trade to GDP ratio =  $\frac{\text{Total Imports} + \text{Total Exports}}{\text{GDP}} \times 100\%$



## Current Account Balances

The current account (CA) balance<sup>2</sup> always plays a prominent role in any discussion of trade relations. In fact, a CA deficit may often be portrayed as ‘unfair’ or wrong.



<sup>1</sup> Hong Kong SAR, India, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand.

*Figure 2: Current account balances as a percentage of World GDP sorted by region over time. Sources: Bank for International Settlements, IMF World Economic Outlook*

Figure 2 shows trade imbalances over time. Overall trade imbalances peaked in 2006, just before the financial crisis. At more than 2% of the world GDP, these imbalances were unprecedented. Another prominent trend is the persistence of some countries running either a deficit or a surplus.

The US has run a large proportion of the world deficit in almost every year since 1984. China and Germany seem to always maintain strong surpluses, especially after 2000. However, the surpluses of both China and Germany have reduced post-crisis and we see that Germany’s surplus exceeds China’s (as a percentage of World GDP, but also in absolute terms).

In brief, some of the reasons for these high surpluses in Germany and China are:

- Reduced labor costs due to policies that led to the expansion of labor supply
- High productivity growth
- High national saving and investment, with low consumption
- China’s entry into the WTO, and Germany’s entry into the Eurozone

<sup>2</sup> Current Account Balance = Exports – Imports

If the current account balance is positive, there is said to be a current account surplus; if the current account balance is negative, there is said to be a current account deficit.



Different economies have different productivities and strengths. This leads to the possibility of gains from trade (we will discuss the theory more deeply below) and results in CA deficits and surpluses. It also means that a country experiencing a CA deficit will enjoy a higher level of consumption. It can be that trade increases the standard of living in all participating countries. This is often backed up by economic theory and evidence and tells us that it may not always be 'unfair' to run a deficit.

## **Some theoretical considerations on trade policy**

As stated, up to very recent times international trade flourished making economies more integrated. However, since 2017 this trend has been severely undermined by the trade war following the new US trade policy stance.

The American administration has been seriously concerned with US current account deficit over the past years, since it is the biggest in the world. The U.S. Congress first became concerned when the deficit hit the record amount of \$803 billion in 2006 (about 5,79% of the national GDP). Most experts agreed it was unsustainable and advocated several reforms to tackle the issue. Indeed, it was almost as if US borrowed 6 percent of what it produced to pay for its imports.

Starting from 2017, Trump administration decided to tackle this issue adopting a severe protectionist trade policy against the countries with which US had the highest bilateral trade deficit. This could have triggered the classical "prisoners dilemma" leading to the inefficient Nash equilibrium where everyone is worse off and yet, due to non-cooperation, unwilling to change the situation: a war on tariffs and trade restrictions between US and numerous commercial partners like China and European countries.

This policy may indeed be motivated by the very simple line of reasoning that an increase in tariffs on imports for such a big country as US would result in the reduction of the domestic demand for foreign goods, in the protection of less productive national firms and possibly also in some improvements in the terms of trade and in rising some tax revenue whose burden lays partly on foreign firms.

However, some additional considerations need to be made.

International economics theory has shown both negative effects (mainly on labor market- because of price and wage rigidities- but also social impact- physical and mental diseases due to stress-) and positive effects (reduction in prices, in markups, greater variety available to consumers, wider amount of good produced thanks to comparative advantage) of greater market openness. In general, this literature points to the fact that globalization can produce net welfare gains, even though there are welfare losses and these are usually concentrated only on some social clusters.

For the sake of brevity, we will only focus on two important reasons why trade openness should be preserved also in case of trade deficit and alternative policies should be advocated for. These reasons are: productivity growth and the presence of multinational enterprises.

### **1. Productivity Growth**

The current standard in economic literature proves how trade has a strong impact on national productivity growth. In particular, trade openness and markets integration enlarge the size of the market on which firms compete for a wider demand. This competition in theory should benefit the national economy on several fronts.



International trade literature has shown that an increase in the size of the market (as induced by markets integration) leads to the exit of less productive firms due to increasing competition in the labor market (Melitz, 2003) or due to increased competition on the product market (Melitz and Ottaviano, 2008), where relatively more productive foreign exporters enter the market increasing the price elasticity of demand and therefore reducing the markup that domestic firms can charge.

Overall, given the peculiar distribution of firm productivities and firm sizes observed in competitive markets (Pareto distribution) prices should fall due to the combined effect of reduced markups (procompetitive effects) and only the more efficient firms surviving (selection effect). Moreover, the number of goods available on the market should also increase thanks to the international supply. All these effects are welfare gains from trade that a country forgoes once it adopts protectionist policies. In these models, firms that export and make foreign direct investments are expected to grow bigger, obtain higher profits and be more productive.

These models rely on some assumptions that may be hard to verify. However, they are good at predicting benefits stemming from trade openness. As an example, analyzing a panel dataset containing more than 9700 European firms operating in three countries (France, Germany and Italy) and in two sectors (Textiles and Machineries) between 2001 and 2009, we observe the following facts: firms making FDI are on average bigger (more employees), have greater EBITDAs and are more productive (Total Factor Productivity). They are followed by exporters and then domestic firms (Table 1).

Exporters and FDI firms show statistically significant TFP premia, meaning they are more productive with respect to only domestic firms, because of their internationalization strategy (Table 2).

After an increase in market integration, firms surviving on the market are on average more productive and the distribution of their productivities is less right-skewed. This is indeed because more productive firms gain market shares and resources released from those exiting the market (Graph 1).

Building on this point, we can assume more market integration has occurred between 2001 and 2008 in both sectors because of China entering the WTO and the introduction of the common currency. As we can see from the graph, the right tail gets thicker because there are now relatively more productive firms.

**Table 1**

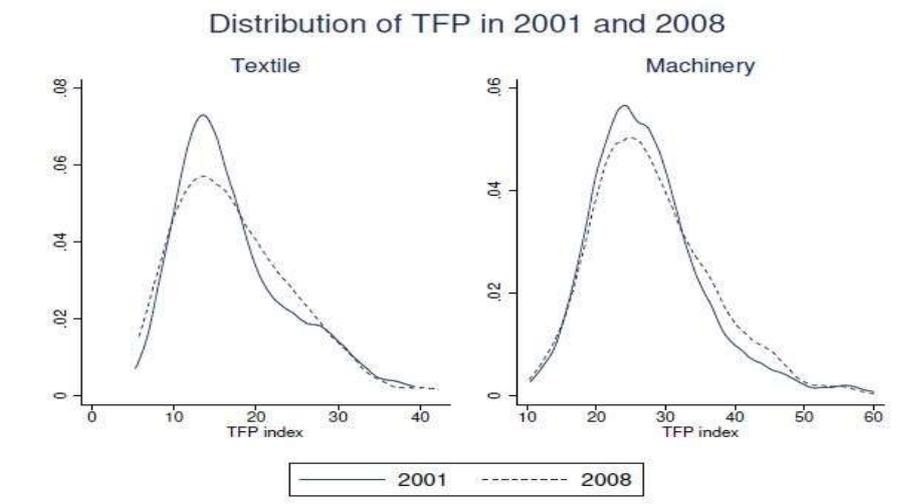
	<b>Exporters and FDI</b>	<b>Exporters only</b>	<b>Domestic firms</b>
<b>Average TFP</b>	28,92	25,71	25,34
<b>Average real EBITDA</b>	7243,98	2948,28	1000,53
<b>Average firm size</b>	153	55	24

**Table 2**

	Export			FDI		
	(1) $\beta$ / SE	(2) $\beta$ / SE	(3) $\beta$ / SE	(4) $\beta$ / SE	(5) $\beta$ / SE	(6) $\beta$ / SE
Exporter	-0.001 (0.008)	0.055*** (0.007)	0.017** (0.007)			
FDI				0.122*** (0.029)	0.239*** (0.022)	0.133*** (0.025)
FE	No	Yes	Yes	No	Yes	Yes
Firm size control	No	No	Yes	No	No	Yes
Observations	9239	9239	9239	3475	3475	3475
$R^2$	0.000	0.301	0.339	0.009	0.256	0.276

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . Standard errors in parentheses.

**Graph 1**



Trade openness is an important channel to boost productivity growth. In order to exploit this channel effectively at the least cost for society, other arrangements should be considered.

Firstly, the reallocation of resources must work smoothly. This is possible if public resources are not wasted in keeping low productive firms alive, preventing their skilled workers to flow into highly productive ones. In general, as market openness creates winners and losers, reforms aiming at increasing “flexicurity” (flexibility and social security) on the job market are beneficial.

Secondly, financial markets play an important role in reallocating resources by lending capital to firms with high potential of growth. Studying how TFP has changed between 2000 and 2008, it can be observed that countries with



highly efficient financial markets like UK, have been more capable of selecting firms in accordance with their competitiveness and this fact has positively contributed to the increase in average productivity.

On the contrary, in Italy young productive firms have had hard times entering the market because of lower availability of credit. Recent studies have also shown that higher collateral requirements tend to mitigate the procompetitive effects stemming from the reduction in markups.

## 2. Multinational Enterprises (MNEs)

Imposing tariffs and trade restrictions has historically been a common strategy to reduce trade deficits. However, since the second half of the nineties, international trade has undergone profound changes. It is now significantly dominated by MNEs. For instance, in 2013 the United Nation Conference on Trade and Development (UNCTAD) estimated that approximately 80% of the global gross trade (export of goods and services) took place with an MNE commercial partner.

A great part of the value imported by a foreign country may be generated in other foreign countries or even be domestically produce and then reimported through MNEs activity.

It is also the case that some imports from a country are not consumed as final goods, but immediately re-exported to other countries with some more domestically created value added. According to the US Census Bureau, almost 50% of the value of US imports come from affiliates of US MNEs located abroad.

This fact then questions the (already questionable) efficacy of a protectionist policy, even in the short run. Bilateral tariffs are not well targeted and may produce unexpected results. In the best-case scenario, some MNE may indeed decide to get around trade restrictions simply rearranging their production processes so to access US market via other countries, making this measure ineffective. In the worst-case scenario, tariffs can lead to an increase in cost of a broad set of good that are indirectly related to the imports form a specific country, it may damage US MNEs that decided to make resource seeking or cost saving FDI by increasing the cost of reimportation of intermediate goods and eventually the flee of some US firms from the country (similar situation is occurring in UK with Brexit).

To set an example, an analysis of US imports from Mexico published on [lavoce.info](http://lavoce.info) by Altomonte and Colatone in 2017 showed to what extent Mexican exports to US consisted of domestically produce value added and how much of this value added found its ultimate destination in US. Using Zhi Wang, Shang-Jin Wei, Kunfu Zhu (2013) methodology to decompose VA by producer country, they found that in 2011 32% of Mexican export was produced elsewhere (possibly also in US) and 9% was eventually reexported.

Imposing restrictions with respect to a specific country reduces the deficit with that country but eventually leads to an increase of the deficit with respect to others. In the meanwhile, some national produces may be hurt. Additionally, national consumers must bear the burden of an increase in the prices.

### **The reduction in global trade: temporary or permanent?**

The recent implementation of protectionist trade policies and reduction in global trade is not only a technical consequence of accumulated trade deficits, but also a matter of electoral dynamics. Recently scholars have observed how constituencies are more prone to vote for parties proposing what Colatone and Stanig (2018) call “Economic



nationalism” (especially populist parties and radical right parties). In general, this preference for protectionist stances and the opposition to multilateralism and supranational institutions, such as EU, WTO and United Nations, may be in part considered itself a consequence of increasing globalization.

Up to 90s, increasing globalization was flanked by increasing social security spending and compensation of social clusters that were most negatively affected by it. This way that part of the population bearing the negative effects of globalization was still willing to support mainstream politicians of center-right and center-left. Today instead the increasing fiscal competition, income inequality and the general difficulty to sustain public expenditure has made the promise for compensation unreliable and people have started voting for those parties closing the economy to trade.

Hence, whether or not this reduction in trade openness is going to be permanent depends on whether governments will be able to compensate globalization losers. This will be only possible with effective labor market policies bringing about flexicurity and correct incentives to firms (subsidizing R&D rather than the cost of production or protecting firms from competition) and a more generous social security system especially towards the most affected in the population.

In conclusion, trade openness may substantially benefit national economies if carefully managed. On the other hand, simply imposing bilateral trade restrictions appears to be a political move to identify a scapegoat for domestic problems, while not tackling them effectively.



## II – The effects of the US’ trade wars

### The US – China trade war

As a consequence of the US – China trade war, the US has shown the largest decline in real imports, projected to fall 4.5% in 2020. The most impacted industries are Tech, Agriculture and Automobiles, which rely considerably on Chinese imports and exports. Data also shows inflation increasing due to tariffs, with consumers paying the price of the trade war. US’ financial markets react with great volatility at every news related to the trade war, signalling how crucial it is for the future of the country and for companies that rely on integrated supply china (e.g. Apple). The Fed is also considering decreasing interest rates, when just a few months ago further hikes were a solid possibility.

However, while there is no real winner a trade war, the main loser appears to be China, not the US, with the trade war worsening the effects of a break in its incredible economic expansion. In fact, looking at economic fundamentals for China, the following main considerations arise.

China’s GDP growth has been weakening over the last 10 years, averaging 1.78 % QoQ between 2010 and the first three months of 2019, reaching a record low of 1.4% QoQ in Q1 2016. It is forecasted to continue to decelerate as the economy consolidates and as a consequence of the trade war with the US. Specifically, the GDP growth rate is projected to trend around 1.1% QoQ in 2020, marking a strong break in economic growth for the country.

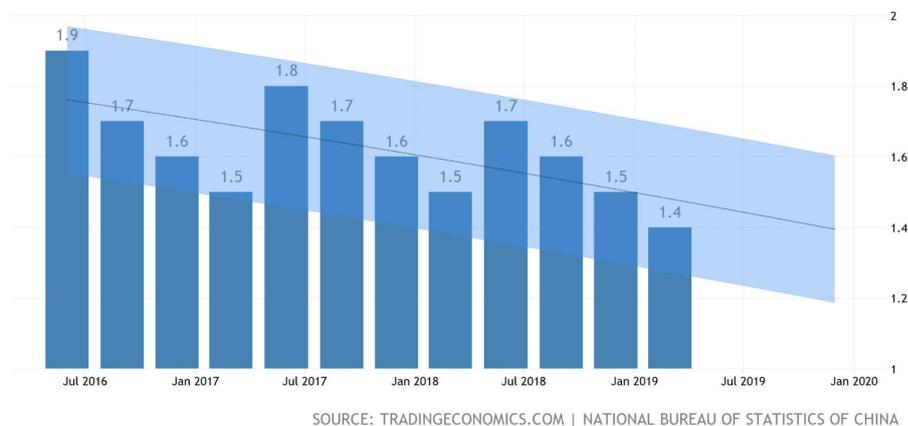


Figure 3: China’s GDP growth. Sources: Trading Economics

China’s CPI has been rising in the first months of 2019 up to 2.7% YoY in June, compared with only 1.5% YoY inflation rate in March. This has been mainly driven by an increased in food prices, especially by an increase in the price of pork, following an outbreak of swine fever. Overall, however, China’s CPI trend over the last 5 years is increasing and it is projected to trend at around 1.9% in 2020.

However, core inflation seems to be stable or even on a downward path, with the May figure at 1.6% YoY, being the lowest since August 2016.

#### Warning

This is an academic paper related to an academic project. This paper is not an investment suggestion and it does not in any way represent an invitation to purchase the securities we virtually invest in.



Figure 4: China's CPI. Sources: Trading Economics

The Chinese renminbi remained substantially unchanged against the euro since the start of the year, trading now at 7.8141 CNY/EUR against a 7.8669 on 31/12/18. It strengthened during the first months of the year, to increase then the initial trading levels in May and June. Overall, there is the case for a renewed gain of strength for the Chinese currency against the euro, mainly driven by the prospect of renewed accommodative monetary policy by the ECB in the months to come.



Figure 5: China's Renminbi against the Euro. Sources: Bloomberg

More technically, looking at the 10y yield on the local currency Chinese bonds, it has experienced a marked reduction over the previous years. In particular, it has decreased by 30.5 bps over the year and the decline has been stronger for shorter maturities as reported in the figure 6.



Date	Maturity	Yield(%)	Daily Change(BP)	Monthly Change (BP)	Annual Change(BP)
2019-06-28	3Mo	2.19	-5.05	-20.77	-94.30
	6Mo	2.39	-0.55	-18.98	-79.53
	1Yr	2.64	-1.36	-9.23	-58.13
	3Yr	2.94	-0.47	-3.38	-41.12
	5Yr	3.06	-2.05	-8.63	-33.46
	7Yr	3.26	-1.50	-10.24	-28.00
	10Yr	3.23	-2.99	-8.46	-30.50
	30Yr	3.87	-2.16	-7.88	-17.46

Figure 6: China's term structure. Sources: [http://yield.chinabond.com.cn/cbweb-czb-web/czb/moreInfo?locale=en\\_US](http://yield.chinabond.com.cn/cbweb-czb-web/czb/moreInfo?locale=en_US)

Forecasts are for the decreasing trend to continue throughout the year.

## A trading idea

Considering forecasts for a parallel downward movement of the yield curve, together with no strong movements in the CNY/EUR exchange rate expected to take place, even though the long term deceleration in China's GDP growth poses problems for debt sustainability, it seems that there is a tactical opportunity to be bullish on China's hard currency sovereign debt market. Also, it is true that overall inflation is expected to increase relative to the long-term average, but the forecasts are from a decrease relative to the current very high QoQ readings mainly driven by increased pork prices. This is further confirmed by the stable (even slightly declining) core inflation. This should provide additional room to sustain the story of decreasing yields.

To exploit this opportunity, we could consider entering a long position in China's local currency sovereign bonds, for example the 10y bond to have a considerable duration exposure (also a shorter-term maturity would be suitable, since the lower duration exposure should be compensated by a larger expected reduction in yields, while providing some cushion in case of a wrong bet). The position could be currency hedged for example selling CNY futures if we do not want to take a position on the CNY/EUR exchange rate. Additionally, we could sell China's CDSs as a way to replicate synthetically the position, paying attention to the currency of denomination of the contract. Figure 7 shows how the 5y CDS value on China has decreased over 2019.



Figure 7: China's 5y CDS. Sources: <http://www.worldgovernmentbonds.com/cds-historical-data/china/5-years/>

### Warning

This is an academic paper related to an academic project. This paper is not an investment suggestion and it does not in any way represent an invitation to purchase the securities we virtually invest in.



## A US – EU trade war?

The main issue of global trade is the trade war between the US and China, but recently a new one is rising: a US - UE war. This two historical partner and allies, with Donald Trump at the White House, have started their war last year with US' duties on aluminium and steel and EU has replied with 2,8 billion tariffs on American products. At the base of all this problem between the two super-powers there are the idea of the president on the international trade. He always says that currently the US' trade is not equal, unbalanced and it favours the other nation, with more than € 150 billion of EU's surplus. Trump want to rebalance it through new trade agreement and put new duties and tariff to force EU' leaders at the table of negotiations. These types of diplomatic-economic policy will not pay in the long term because of two main reasons. It will make goods more expensive just before the 2020's presidential race and will weaken the ties and influence of US on the European Union.

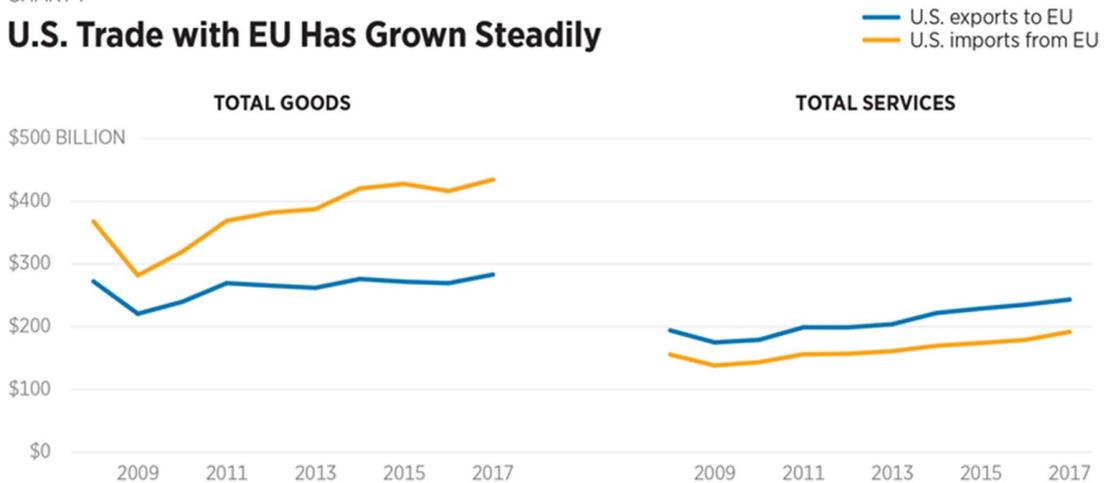
Recently, the World Trade Organization has sued the European Union for illegal public funding and subsidies given to Airbus, the biggest European company in the aviation industry. This sentence put an end at the US-EU dispute of 14 years long and has involved an increase of tension between the two partners. Immediately after the judgement, the US 'President has stated that he would impose tariff on 11 billion of the EU exports. These products vary from helicopter to agri-food such us wine, cheese and others. In addition, the White House always underline that it is ready to put duties on European cars imported in order to balance the trade, especially the one with German. EU' leaders have not hesitated to reply and threaten new tariffs of much more amount on the US' good, but at the same time They have reach a deal to give to the EU Commission the power to negotiate a new trade agreement with the United States of America.

Finally, there is a new research from ECB on this issue than can give some number about it. It shows that the impact of trade war, such us new duties and tariffs, afflicts much more US itself than the other economic areas that are object of rising protectionism. Particularly, the ECB state that in the long term all the economies will lose out by these tensions, but in the short-mid term US would see a 2%-lower-than-baseline expectation grow. Instead the EU's growth would be unchanged and China's one could be slightly higher thanks to the so-called 'trade-diversion'. However, there are other report, written by prestigious Institution, that state other scenarios because off the uncertainty on what will be the real next step of this escalation. Indeed Mario Draghi, the ECB's chairman, has said, about the impact of trade war, that "Between words and deeds there is often a big gulf".



CHART 1

## U.S. Trade with EU Has Grown Steadily



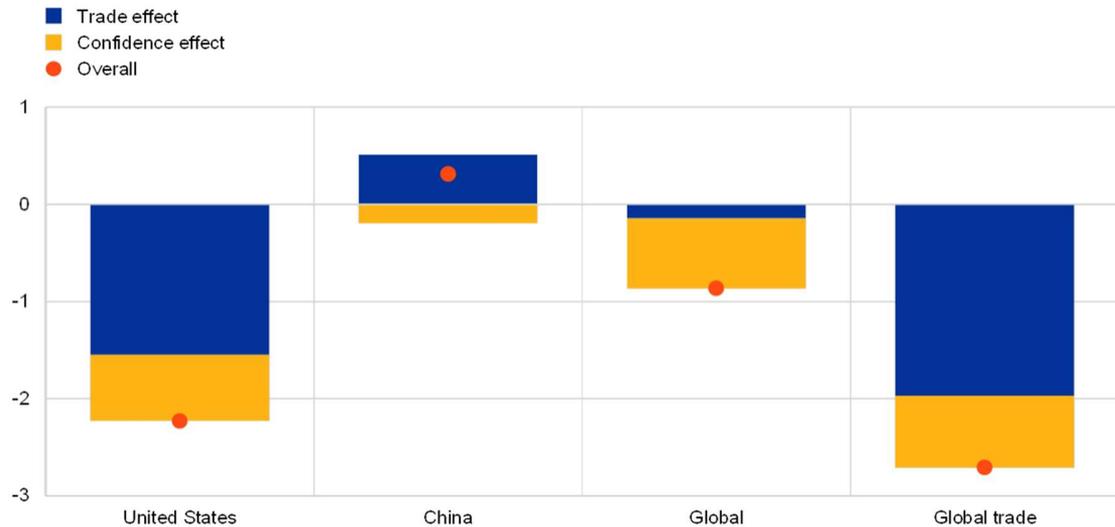
**SOURCES:** International Trade Administration, "TradeStats Express—National Trade Data," <http://tse.export.gov/tse/TSEOptions.aspx?ReportID=2&Referrer=TSEReports.aspx&DataSource=NTD> (accessed December 11, 2018), and Bureau of Economic Analysis, "U.S. Trade in Services, by Country or Affiliation and by Type of Service," <https://apps.bea.gov/iTable/iTable.cfm?ReqID=62&step=1#reqid=62&step=9&isuri=1&6210=4> (accessed December 11, 2018).

BG3389 heritage.org

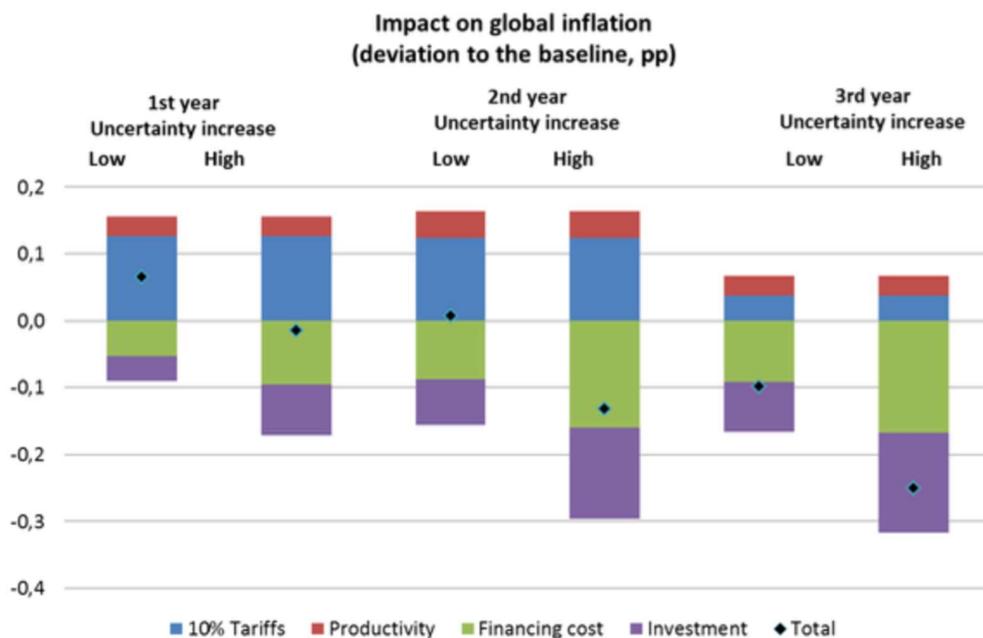
The ongoing trade war engaged by the Trump's administration, threatening to upset global markets and disrupt supply chains, is bringing about rapid changes of ever-growing intensity among European Countries. In the likely context of a global trade war, the impact on global GDP depends on the substitutability between imported and domestic goods, on the response of exporting firms facing tariffs and on monetary policy reactions. According to Berthou, Caroline Jardet, Daniele Siena, Urszula Szerbawicz baseline simulation, global GDP would fall by 0.7% in the first year and up to 1.1% at the end of the third year following the introduction of tariffs. The impact on inflation is not sensible as the direct inflationary impact of higher tariffs is mitigated by monetary policy responses in the current low-inflation scenario and by the fall in aggregate demand (domestic and external) which puts downward pressure on prices. Moreover, it is worth mentioning that financial markets react to expectations of an additional escalation of a trade war, let alone a full-fledged technology arm race, which would bring even more uncertainties to the world. According to the ECB itself, the unavoidable deterioration in confidence has a significant adverse impact on global activity, insofar as financial market reactions have a more wide-ranging impact on output across countries. Hence, markets may react to negative expectations of admittedly limited immediate impacts of a trade war and the latter could represent the biggest single threat to the economic upswing that has helped the Europe get past its financial crisis.

## Estimated impact of an escalation in trade tensions – first year effects

(GDP response in 2018, deviation from baseline levels, percentages)



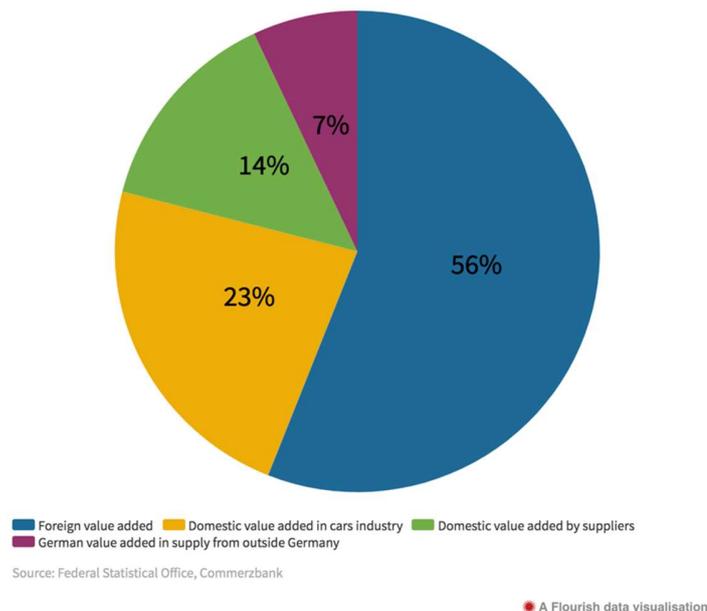
Source: ECB calculations.





Coming to Europe, Germany, the region's largest economy, is no exception and it is blatantly slowing down. The Federal Statistical Office of Germany (*Statistisches Bundesamt*) has recently certified the sluggish pace of its economy, claiming that the foreign trade, not doing a positive contribution to growth in the fourth quarter of 2018, is the main responsible for it. The German economy stagnated in the fourth quarter of 2018 after contracting 0.2% in the July-September period, which was the first time GDP (gross domestic product) had shrank since 2015. Not only American tariffs are detrimental for German steel producers, but the Country is also undergoing the collateral damage of the US-China trade conflict: German automotive industry massively relies on China, that has slowed partly as a result of the Trump administration's tariffs on Chinese goods. Volkswagen's sales fell 3.4 percent in January compared with a year earlier in part because of weak demand in China. For Volkswagen AG, China accounts for about 40 percent of global deliveries. It's also the biggest market for the Mercedes-Benz, BMW and Porsche luxury-car brands. Moreover, Trump himself threatens to impose tariffs on cars imported from the European Union and a research implemented by Commerzbank estimates that a Trump-ordered tariff increase of 25 percentage points on EU auto imports would slash that figure for Germany down to around 14 billion euros per annum. When factoring in how much of that export figure is actual German "added value," the bank estimated that total economic output for the country could fall by around 0.25 percentage points.

**44% of German auto exports have domestic input**



Needless to mention it, the German slowdown is already having an impact on the whole Europe.

In fact, all of the export-oriented countries are undergoing the negative expectations brought about the trade war. The recent document on Italy's economic planning (*Documento di Programmazione Economica e Finanziaria 2018*) estimates the cost of a trade war on Italy in terms of about half a percentage point of GDP in the current and the next year – a not negligible amount given the fact that Italy's GDP is estimated not to grow more than 0.5% in 2019. Exports, indeed, are a crucial component of aggregate sales in Italy, and during the past decade many Italian firms survived thanks to -relatively- open and stable access to foreign markets worldwide. The introduction of tariffs by

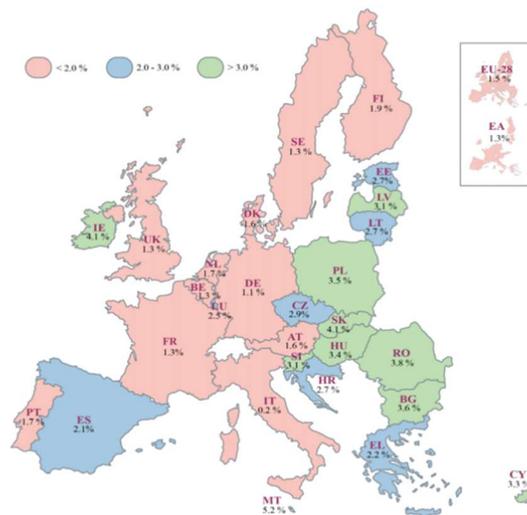
**Warning**

This is an academic paper related to an academic project. This paper is not an investment suggestion and it does not in any way represent an invitation to purchase the securities we virtually invest in.

the US, the inevitable retaliations, lack of trust in the current system of rules supervised by the WTO and the consequential high level of tension and uncertainty, even without specific barriers targeting Italian export sectors, could discourage the internationalization of many firms, especially the small and medium in size. Moreover, steel production in Europe is already under stress because of overcapacity, and in Italy the steel and aluminum production is dealing with some uncertainty due to the problems that have recently involved such massive plants as Ilva in Taranto and Alcoa in Sardinia. The Italian industry is implementing a large restructuring, through a wave of foreign acquisitions, but it is still among the world's top ten producers of steel, closely linked to the production chains of the rest of Europe, and first of all Germany. A general slowdown of the steel market caused by American policies, even if they were not directed toward the EU, would certainly have a cost for the Italian economy. Another likely target of US trade policy might be the agricultural and food sector, where the country has a high deficit, and is a highly important sector for Italy on that market. The partial closure of the US market in this sector might give birth to a price war in Europe, too, and the European integration process is already coping with a broad and heterogeneous range of problems.

### Expected real GDP growth for 2019 in EU Member States

The map below shows the 2019 expected real Gross Domestic Product growth based on the European Commission's winter 2019 interim forecast; the data will be updated on regular basis once new forecasts will be available.



### Total Goods: Top trading partners 2018

Source Eurostat Comext - Statistical regime 4

Imports			Exports			Total trade		
Partner	Value Mio €	% Extra-EU	Partner	Value Mio €	% Extra-EU	Partner	Value Mio €	% Extra-EU
World	1,980,361	100.0	World	1,955,746	100.0	World	3,936,107	100.0
1 China	394,698	19.9	1 USA	406,372	20.8	1 USA	673,642	17.1
2 USA	267,270	13.5	2 China	209,906	10.7	2 China	604,604	15.4
3 Russia	168,280	8.5	3 Switzerland	156,484	8.0	3 Switzerland	265,464	6.7
4 Switzerland	108,980	5.5	4 Russia	85,263	4.4	4 Russia	253,542	6.4
5 Norway	83,837	4.2	5 Turkey	77,270	4.0	5 Turkey	153,409	3.9
6 Turkey	76,139	3.8	6 Japan	64,754	3.3	6 Norway	137,704	3.5
7 Japan	70,471	3.6	7 Norway	53,867	2.8	7 Japan	135,225	3.4
8 South Korea	51,089	2.6	8 South Korea	49,250	2.5	8 South Korea	100,339	2.5
9 India	45,827	2.3	9 India	45,702	2.3	9 India	91,528	2.3
10 Vietnam	38,157	1.9	10 Canada	41,355	2.1	10 Canada	72,343	1.8
1 China	394,698	19.9	2 China	209,906	10.7	2 China	604,604	15.4

### Warning

This is an academic paper related to an academic project. This paper is not an investment suggestion and it does not in any way represent an invitation to purchase the securities we virtually invest in.



Nevertheless, there is still room for a shred of optimism. The China market, in fact, offers a potential gain to European exporters (as far as the substitution of US products is concerned), unless the US imposes import tariffs on Europe, an unlikely but not impossible scenario. Also, if China accepted the US' demands and expanded its imports from the US, European sectors heavily dependent on exporting to the Chinese market would be severely affected, as mentioned before with regards to Germany and Italy.

**Warning**

This is an academic paper related to an academic project. This paper is not an investment suggestion and it does not in any way represent an invitation to purchase the securities we virtually invest in.



### III – Sources

<https://www.lavoce.info/archives/45138/45138/>

<https://www.lavoce.info/archives/53929/tutti-sconfitti-nelle-guerre-commerciali/>

<https://www.thebalance.com/the-u-s-current-account-deficit-threat-or-way-of-life-3305701>

“Economics of European Integration” lectures at Bocconi by Altomonte and Colatone.

Colatone and Stanig (2018), “The Trade Origins of Economic Nationalism: Import competition and Voting Behaviour in Western Europe.” *American Journal of Political Science* 62(4): 936-954

[https://webgate.ec.europa.eu/isdb\\_results/factsheets/country/details\\_china\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_china_en.pdf)

<http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>

<https://www.ispionline.it/it/pubblicazione/how-will-italy-be-affected-us-trade-threats-20677>

<https://www.bloomberg.com/news/articles/2018-11-11/germany-s-winter-rebound-pinned-on-car-revival-that-may-not-come>

<https://www.bloomberg.com/news/articles/2018-12-19/europe-has-little-to-gain-much-to-lose-in-u-s-china-trade-war>

<https://tradingeconomics.com/germany/gdp-growth>

<https://www.reuters.com/article/us-usa-trade-china-europe/impact-of-trade-tariffs-on-european-companies-idUSKBN1KT1Y1>

<https://www.cnbc.com/2019/04/26/trump-tariff-threat-on-autos-could-bring-a-german-recession.html>

[https://www.destatis.de/EN/Press/2019/02/PE19\\_050\\_811.html](https://www.destatis.de/EN/Press/2019/02/PE19_050_811.html)

<https://www.nytimes.com/2019/02/14/business/germany-economy.html>

<https://voxeu.org/article/macroeconomic-implications-global-trade-war>

<http://bruegel.org/2018/08/us-china-trade-war-whats-in-it-for-europe/>

<https://www.bloomberg.com/news/articles/2019-04-08/trump-responds-to-eu-airbus-subsidies-with-threat-of-new-tariffs>

<https://www.ft.com/content/d11edbaa-65e3-11e9-a79d-04f350474d62>

<https://www.bloomberg.com/opinion/articles/2019-04-04/potential-for-europe-us-trade-war-should-concern-markets>

[https://www.ilsole24ore.com/art/mondo/2019-04-09/europa--stati-uniti-italia-guerra-dazi-spiegata-5-grafici-174501\\_PRV.shtml?uuid=ABSYPmMB](https://www.ilsole24ore.com/art/mondo/2019-04-09/europa--stati-uniti-italia-guerra-dazi-spiegata-5-grafici-174501_PRV.shtml?uuid=ABSYPmMB)

[https://www.ilsole24ore.com/art/mondo/2019-04-11/dazi-c-guerra-commerciale-via-negoziati-ue-usa-evitare-l-escalation-174548\\_PRV.shtml?uuid=AB8isVnB](https://www.ilsole24ore.com/art/mondo/2019-04-11/dazi-c-guerra-commerciale-via-negoziati-ue-usa-evitare-l-escalation-174548_PRV.shtml?uuid=AB8isVnB)



<https://www.ft.com/content/cdd13696-5c6a-11e9-9dde-7aedca0a081a>

<https://ihsmarkit.com/solutions/us-china-trade-war-impacts.html>

<https://www.brinknews.com/u-s-china-trade-war-whats-in-it-for-europe/>

[https://www.ecb.europa.eu/pub/economic-bulletin/focus/2018/html/ecb.ebbox201806\\_01.en.html](https://www.ecb.europa.eu/pub/economic-bulletin/focus/2018/html/ecb.ebbox201806_01.en.html)

**Warning**

This is an academic paper related to an academic project. This paper is not an investment suggestion and it does not in any way represent an invitation to purchase the securities we virtually invest in.